

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 1584-01  
Bill No.: HB 832  
Subject: Taxation and Revenue - Sales and Use  
Type: Original  
Date: April 23, 2013

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Bill Summary: This proposal would create a sales tax holiday for products which are made in the United States of America.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
<b>FUND AFFECTED</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
General Revenue*	\$0	(More than \$100,000)	(More than \$100,000)
<b>Total Estimated Net Effect on General Revenue Fund*</b>	<b>\$0</b>	<b>(More than \$100,000)</b>	<b>(More than \$100,000)</b>

**\* Office of Administration - Budget and Planning estimated an annual loss of \$4.1 million in general sales taxes from the sales tax holidays.**

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 11 pages.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Conservation Commission	\$0	(More than \$100,000)	(More than \$100,000)
Parks, and Soil and Water	\$0	(More than \$100,000)	(More than \$100,000)
School District Trust	\$0	(More than \$100,000)	(More than \$100,000)
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>(More than \$100,000)</b>	<b>(More than \$100,000)</b>

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
<b>Total Estimated Net Effect on FTE</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

☒ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2014	FY 2015	FY 2016
Local Government	\$0	\$0	\$0

### FISCAL ANALYSIS

#### ASSUMPTION

##### Section 144.059, RSMo - Made in USA sales tax holiday

Officials from the **Office of the Secretary of State** assume this proposal would have no fiscal impact to their organization.

Officials from the **Joint Committee on Administrative Rules** assume that this proposal would not have a fiscal impact to their organization in excess of existing resources.

Officials from the **Office of Administration, Division of Budget and Planning (BAP)** assume this proposal would not result in additional costs or savings to their organization.

BAP officials noted that, according to Federal Trade Commission guidelines, there are several categories of "Made in USA" products, including products that are entirely manufactured to those partially manufactured in the USA. It is unclear from this proposal if only those products that are "all or virtually all made in the USA" would qualify for the sales tax holiday, or if a broader set of products would also qualify.

ASSUMPTION (continued)

BAP officials cited a study prepared by the San Francisco Federal Reserve which provided estimates of the proportion of personal consumption comprised by various product types, as well as what portion would qualify for the "Made in USA" exemption. As shown in Table 1 below, BAP officials estimated that 11.4% of annual sales would qualify for the holiday. Further, since the proposed holiday would last for one week, BAP officials assume  $(1 \text{ week}/52 \text{ weeks}) = 1.9\%$  of annual qualifying sales would be exempt, or  $(11.4\% \times 1.9\%) = 0.22\%$  of annual sales. In FY 2012, \$1,873,000,000 in general sales tax was collected. This proposal would reduce those revenues by  $(\$1,873,000,000 \times .0022) = \$4.1 \text{ million}$ .

BAP officials estimated that 18.7% of annual sales would qualify for the holiday if food is included. Further, since the proposed holiday would last for one week, BAP officials assume 1.9% of annual qualifying sales would be exempt, or 0.36% of annual sales. Based on FY 2012 collections, the proposed holiday would reduce taxable sales as shown below.

Category	Expenditure Percent	Made in USA Percent	Exempt percent
Furniture and Household Equipment	4.7%	59.6%	2.8%
Other Durables	1.8%	69.0%	1.2%
Clothing	3.4%	24.9%	0.8%
Other Nondurables	8.4%	77.7%	6.5%
Total Excluding Food			11.4%
Food	8.0%	90.8%	7.3%
Total Including Food			18.7%

BAP officials stated the proposal would not reduce sales tax revenue for road purposes, and also noted the proposal would reduce local sales tax revenues for municipalities which choose to participate in the sales tax holiday.

**Oversight** assumes there would be no other impact on road or transportation funds from this proposal.

ASSUMPTION (continued)

BAP officials provided this estimate of the potential revenue reduction for this proposal;

General Revenue Fund	\$4,100 000
Conservation Commission Fund	\$300,000
Parks, and Soil and Water Fund	\$300,000
School District Trust Fund	\$2,600,000

**Oversight** assumes this proposal would reduce sales tax revenues but is not able to determine the extent to which additional retail sales would be exempted by this proposal. Oversight also assumes the sales tax holiday could potentially influence the timing of larger purchases, resulting in revenue reductions larger than the BAP calculations. Oversight will indicate a revenue reduction greater than \$100,000 for the General Revenue Fund and for those other state funds which receive sales tax revenues.

Officials from the **City of Columbia** assume this proposal would only have an impact on their organization if the City Council implemented the holiday. City officials noted the proposal could result in a loss of sales to areas outside the city.

In response to similar provisions in HB 1983 LR 6064-01 (2012) officials from the **City of Kansas City** assumed the City would be given the choice to opt in to the sales tax holiday, so no impact would be expected from the proposal.

Officials from **St. Louis County** assume the loss to their organization would not be great, but did not provide an estimate of the fiscal impact since they could not define their sales tax base to this level of detail.

**Oversight** will not indicate a fiscal impact to local governments since any impact to local government revenues would result from the local government decision to adopt the sales tax holiday.

ASSUMPTION (continued)

Officials from the **Department of Revenue (DOR)** assume this proposal would create a sales tax holiday for "Made in USA" products which would be based on the policy on "Made in USA" claims enforced by the Federal Trade Commission. The products could not already be exempt from state sales taxes under existing provisions.

The program would begin January 1, 2014 and end December 31, 2015, and would provide a sales tax holiday over a seven day period from July first through July seventh, unless July first is a Sunday. If July first is a Sunday, the seven-day period would begin on July second and end on July eighth. The exemption provided in this section would only to the first fifteen thousand dollars of each purchase of a "Made in USA" product.

A political subdivision could adopt the sales tax holiday to apply to its local sales taxes; the political subdivision would be required to notify the Department of Revenue at least forty-five days before the beginning date of the holiday of any order or ordinance applying the sales tax holiday to its local sales taxes.

Fiscal impact

DOR officials assume the sales tax holiday in this legislation would create an unknown, negative impact on Total State Revenue.

IT impact

DOR officials provided an estimate of the IT cost to implement this proposal of \$27,266 based on 1,008 hours of programming to make changes to DOR systems.

**Oversight** assumes OA - ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA - ITSD (DOR) could absorb the costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA - ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

Administrative impact

DOR officials assume the Department and OA - ITSD (DOR) would need to make programming changes to various tax systems.

DOR officials assume Collections and Tax Assistance (CATA) would require one additional Revenue Processing Technician I (Range 10, Step L) per 7,500 additional file maintenance procedures, one additional Revenue Processing Technician I (Range 10, Step L) per 24,000 additional phone calls received plus CARES equipment and license.

In addition, Sales Tax would require programming to establish a separate sales tax holiday line on taxpayer's returns for political subdivisions that do not participate in the holiday.

DOR officials assume the Department would need to notify approximately 1,500 cities, counties and districts how to participate in the holiday, resulting in mailing and printing costs. DOR officials estimated those costs as follows:

Letters	$\$.025 \times 1500 =$	\$ 37.50
Envelopes	$\$.040 \times 1500 =$	60.00
Postage	$\$.460 \times 1500 =$	<u>690.00</u>
Total	$\$.525 \times 1500 =$	<u>\$ 787.50</u>

In addition, DOR officials stated the Department would send approximately 20,000 businesses a holiday notification informing them how to collect and report holiday related sales tax for locals only and how to report the exemption on their return.

Letters	$\$0.025 \times 20,000 =$	\$ 500.00
Envelopes	$\$0.040 \times 20,000 =$	800.00
Postage	$\$0.460 \times 20,000 =$	<u>\$ 9,200.00</u>
Total		<u>\$10,500.00</u>

ASSUMPTION (continued)

DOR officials noted the proposed sales tax holiday would impact two filing periods (July Monthly Returns and July-September Quarterly returns). Further, because businesses must differentiate sales tax collected in political subdivisions that do not participate, it potentially could eliminate a substantial volume of the July – One and Two Location Voucher returns and the Quarterly July-September – One and Two Location Voucher Returns that can be processed without human intervention. This could result in additional hand keying by department staff and add to the complexity of filing for the impacted businesses.

DOR officials assume Sales Tax would require one additional Revenue Processing Technician I (Range 10, Step L) to process refund claims.

The DOR estimate of cost to implement this proposal including three additional employees, and the related equipment and expense, and notification costs to retailers, totaled \$131,552 for FY 2014, \$133,664 for FY 2015, and \$135,231 for FY 2016.

**Oversight** notes this proposal would provide two brief sales tax holidays; the first week of July in 2014 (FY 2015) and 2015 (FY 2016). Although the holidays could result in consumers delaying purchases for a limited time before the holiday, Oversight will assume the holidays would only impact taxable sales in FY 2015 and FY 2016. Oversight also assumes DOR would notify local governments and retailers of the sales tax holiday in advance, and in regularly scheduled communications. Accordingly, Oversight assumes any additional cost to DOR related to this proposal would be minimal and could be absorbed with existing resources. If unanticipated additional costs are incurred, or if multiple proposals are implemented which increase the DOR workload, resources could be requested through the budget process.

<u>FISCAL IMPACT - State Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
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**GENERAL REVENUE FUND**

Revenue reduction - DOR \*

Sales tax holiday		(More than	(More than
Section 144.059	<u>\$0</u>	<u>\$100,000)</u>	<u>\$100,000)</u>

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND *</b>	<b><u>\$0</u></b>	<b>(More than <u>\$100,000)</u></b>	<b>(More than <u>\$100,000)</u></b>
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\* Office of Administration - Budget and Planning estimated an annual loss of \$4.1 million in general sales taxes from the sales tax holidays.

**CONSERVATION COMMISSION  
FUND**

Revenue reduction - DOR

Sales tax holiday		(More than	(More than
Section 144.059	<u>\$0</u>	<u>\$100,000)</u>	<u>\$100,000)</u>

<b>ESTIMATED NET EFFECT ON CONSERVATION COMMISSION FUND</b>	<b><u>\$0</u></b>	<b>(More than <u>\$100,000)</u></b>	<b>(More than <u>\$100,000)</u></b>
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**PARKS, AND SOIL AND WATER  
FUNDS**

Revenue reduction - DOR

Sales tax holiday		(More than	(More than
Section 144.059	<u>\$0</u>	<u>\$100,000)</u>	<u>\$100,000)</u>

<b>ESTIMATED NET EFFECT ON PARKS, AND SOIL AND WATER FUNDS</b>	<b><u>\$0</u></b>	<b>(More than <u>\$100,000)</u></b>	<b>(More than <u>\$100,000)</u></b>
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<u>FISCAL IMPACT - State Government</u> (continued)	FY 2014 (10 Mo.)	FY 2015	FY 2016
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**SCHOOL DISTRICT TRUST FUND**

Revenue reduction - DOR

Sales tax holiday Section 144.059	<u>\$0</u>	(More than <u>\$100,000</u> )	(More than <u>\$100,000</u> )
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<b>ESTIAMTED NET EFFECT ON SCHOOL DISTRICT TRUST FUND</b>	<b><u>\$0</u></b>	<b>(More than <u>\$100,000</u>)</b>	<b>(More than <u>\$100,000</u>)</b>
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<u>FISCAL IMPACT - Local Government</u>	FY 2014 (10 Mo.)	FY 2015	FY 2016
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

FISCAL DESCRIPTION

The proposed legislation would authorize a state sales and use tax exemption on the first \$15,000 of each purchase of a made in USA product, excluding a purchase of a motor vehicle, purchased during the first week of July 2014 and 2015. A made in USA product would be defined as any new product that supports a claim to be made in the United States under the policy on "Made in USA" claims enforced by the Federal Trade Commission and that is not already exempt from state sales tax under state law.

Retailers that do not participate in the holiday could offer Department of Revenue sales tax refund forms to consumers to file for a direct refund from the Department, or they could offer on-site sales tax refunds in lieu of participating in the sales tax holiday. Any political subdivision could adopt an ordinance or order to opt into the holiday.

FISCAL DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of the Secretary of State  
Joint Committee on Administrative Rules  
Office of Administration - Division of Budget and Planning  
Department of Revenue  
St. Louis County  
City of Columbia



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